

THE PROBLEM OF THE RUPEE: ITS ORIGIN AND ITS SOLUTION (HISTORY OF INDIAN CURRENCY & BANKING)

CHAPTER VII A RETURN TO THE GOLD STANDARD

We have examined the exchange standard in the light of the claim made on behalf of it, that it is capable of maintaining the gold parity of the rupee. This was the criterion laid down by the Chamberlain Commission as a fitting one by which to judge the merits or demerits of that standard. But is the adequacy of that criterion beyond dispute ? In other words, supposing the rupee has maintained its gold parity, which it has only as often as not, does it follow that all the purposes of a good monetary system are therefore subserved ?

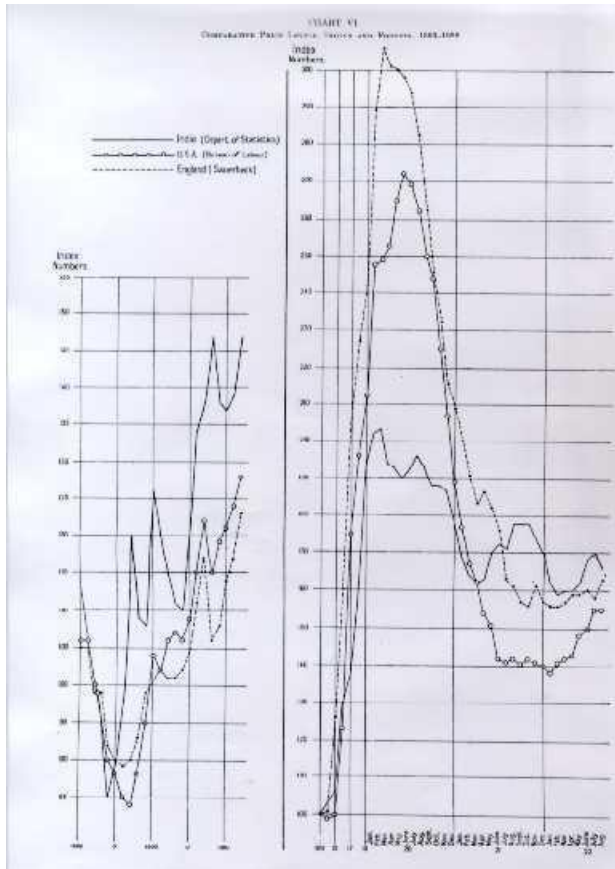
In the exchange standard, " as the system is now operated, the coinage is manipulated to keep it at par with gold " as though money is only important for the amount of gold it will procure. But what really concerns those who use money is not how much gold that money is worth, but how much of things in general (of which gold is an infinitesimal part) that money is worth. Everywhere, therefore, the attempt is to keep money stable in terms of commodities in general, and that is but proper, for what ministers to the welfare of people is not so much the precious metals as commodities and services of more direct utility. Stability of a currency in terms of gold is of importance only to the dealers in gold, but its stability in terms of commodities in general affects all, including the bullion-dealers. Even Prof. Keynes, in his testimony before the Indian Currency Committee of 1919, observed—

"I should aim always... at keeping Indian prices stable in relation to commodities rather than in relation to any particular metallic or particular foreign currency. That seems to me of far greater importance to India." It is, of course, a little difficult to understand how the remedy of high exchange which he supported was calculated to achieve that object. Raising the exchange was a futile project, in so far as it was not in keeping with the purchasing power of the rupee. As an influence governing prices it could hardly be said to possess the virtue he attributed to it. The existing price-level it could affect in no way; nor could a high exchange prevent a future rise of prices. It could only change the base from which to measure prices. Future prices could vary as easily from the new high base-line as prices did in the past from the old baseline. In other words, Mr. Keynes seems to have overlooked the fact that exchange was only an index of the price-level, and

to control it, it was necessary to control the price-level and not merely give it another name which it cannot bear and will not endure, as was proved in 1920 when the rupee was given in law the value of 2s. (gold) when in practice it could not fetch even 1s. 4d. sterling, with the result that the rupee exchange sank to the level determined by its purchasing power. But, apart from this question, we have the admission of the ablest supporter of the exchange standard that the real merit of a currency system lies in maintaining the standard of value stable in terms of commodities in general.

Given that this is the proper criterion by which to judge a currency system, we must ask what has been the course of prices in India since the Mint closure in 1893? This is a fundamental question, and yet not one among the many who have praised the virtues of the exchange standard has paid any attention to it. In vain may one search the pages of Prof. Keynes, Prof. Kemmerer, or Mr. Shirras for what they have to say of the exchange standard from this point of view. The Chamberlain Commission or the Smith Committee on Indian currency never troubled about the problem of prices in India, and yet without being satisfied on that score it is really difficult to understand how anyone can give an opinion of any value as to the soundness or otherwise of that standard.

In proceeding to consider the exchange standard from the standpoint of prices, it is as well to premise that one of the important reasons why the Indian Mints were closed to the free coinage of silver was that the rupee was a depreciating currency resulting in high prices. The closing of the Mints, therefore, should have been followed by a fall of prices in India; for, to adopt the phraseology of Prof. Fisher, the pipe-connection between the money reservoir and the silver-bullion reservoir was owing to the Mint closure cut off or stopped, thereby preventing the passage of silver from the bullion reservoir to the money reservoir. In other words, the newly mined silver could not become money after the Mint closure and lower the purchasing power of the rupees in circulation. If this is so, then how very disappointing has been the effect of the Mint closure ! From the standpoint of prices the rupee has become a problem as it had never been before. The rise of prices in India since the Mint closure (See Chart VI) has been quite unprecedented in the history of the country.



Indeed, the rise of prices in India before the Mint closure, when the pipe-connection between the silver-bullion reservoir and the rupee-currency reservoir was intact, must be regarded as very trifling compared with the rise of prices after the Mint closure when the pipe-connection was cut off. From the standpoint of prices the Mint closure has therefore turned out to be a curse rather than a blessing, and literally so, for, under an ever-rising price-level, life in India is rendered quite unbearable. No people have undergone so much misery owing to high prices as the Indian people have done. During the war period the price-level reached such a giddy height that the reports of suicide by men and women who were unable to buy food and clothing were in no way few and far between. It may, however, be argued that the rise of prices in India would have been greater if the Mints had not been closed and India had remained a purely silver-standard country. A good deal, no doubt, can be said in favour of this view. It is absolutely true that silver, being universally discarded, has become unfit for functioning as a standard of value. To that extent an exchange standard is better than a pure-silver standard. But is it as good as a gold standard ?

On the basis of the doctrine of purchasing power parities as an explanation of actual exchange rates, one may be led to answer the question in the affirmative. For it may be argued that if the gold value of the rupee was maintained it is because gold prices and rupee prices were equal. This, it may be said, is all that the exchange standard aims at doing and can be claimed to have done, for the fact that the gold-standard reserve was seldom depleted is a proof that the general prices inside India were on the same level as those ruling outside India. On a *a priori* considerations such as these, the exchange standard may be deemed to be as good as a gold standard.

One may ask as to why Indian prices should have been kept as high, if they were no higher than gold prices, and whether it would not have been better to have kept Indian prices on a lower level. But we shall not raise that question. We shall be satisfied if Indian prices were only as high as gold prices. Now did Indian prices rise only as much as gold prices? A glance at the chart reveals the surprising phenomenon that prices in India not only rose as much as gold prices, but rose more than gold prices. Of course in comparing Indian prices with gold prices to test the efficacy of the exchange standard we must necessarily eliminate the war period, for the reason that gold had been abandoned as a standard of value by most of the countries. And, even if we do take that period into account, it does not materially affect the conclusion, for although India was not a belligerent country, yet prices in India were not very much lower than prices in countries with most inflated currencies during the war, and barring a short period were certainly higher than gold prices in U.S.A.

It is obvious that the facts do not agree with the *a priori* assumption made in favour of the exchange standard. So noticeable must be said to be the local rise in Indian prices above the general price level in England that even Prof. Keynes, not given to exaggerate the faults of the exchange standard, was, as a result of his own independent investigation, convinced that

"a comparison with Sauerbeck's index number for the United Kingdom shows that the change in India is *much greater* than can be accounted for by changes occurring elsewhere."

What is then the explanation of this discrepancy between the *a priori* assumption and the facts of the case. The explanation is that the actual exchange rates correspond to the purchasing power parities of two currencies not with regard to *all* commodities but with regard to *some* only. In this connection it is better to re-state the doctrine of the

relation of the purchasing power parities to exchange rates with the necessary qualification. A rigorously strict formulation of the doctrine should require us to state that Englishmen and others value Indian rupees inasmuch as and in so far as those rupees will buy *such Indian goods as Englishmen want*; while Indians value English pounds inasmuch as and in so far as those pounds will buy *such English goods as the Indians want*. So stated it follows that the actual exchange rates are related to purchasing power parities of the two currencies with regard to such commodities only as are internationally traded. To assume that the actual exchange rate is an exact index of the purchasing power parity of the two currencies with regard to *all* the commodities is to suppose that the variations in the purchasing power of a currency over commodities which are traded and which are not traded are the same. There is certainly a tendency for movements in the prices of these two classes of goods to influence one another *in the long run*; so that it becomes possible to say that the exchange value of a currency will be determined by its internal purchasing power. The doctrine of purchasing power parity as an explanation of exchange rates is valuable as an instrument of practical utility for controlling the foreign exchanges *and* it is as such that the doctrine was employed in an earlier portion of this study to account for the fall in the gold value of the rupee. But to proceed, on the basis of this relationship between the purchasing power of a currency and its exchange value, to argue that at any given time the exchange is more or less an exact measure of general purchasing power of the two currencies, is to assume what cannot always be true, namely, that the prices of traded and non-traded goods move in sympathy. This assumption is too large and can only be said to be more or less true according to circumstances. Now as Prof. Kemmerer points out :—

"While India's exports and imports in the absolute are large, still, in the main, the people of India live on their own products, and a large part of those products run their life history from production to consumption in a very small territory. They have only the remotest connection with foreign trade, gold, and the gold exchanges. In time, of course, any substantial disturbance in the equilibrium of values in the country's import and export trade will make itself felt in these local prices, but allowing for exceptions, it may be said that in a country like India the influences of such disturbances travel very slowly and lose much of their momentum in travelling."

In consequence of the thinness of connection between the two it is

obvious that the prices of such Indian goods as do enter into international trade cannot always be said to move in more or less the same proportion as those which do not. Besides this thinness of connection which permits of deviations of the general purchasing power of a currency from the level indicated by the actual exchange rate, it is to be noted that the prices of Indian commodities which largely enter into international trade are not governed by local influences. Such exports of India as wheat, hides, rice and oil seeds are international commodities, not solely amenable to influences originating from changes that may be taking place in the prices of home commodities and services. The combined effect of these two circumstances, except in abnormal events such as the war, is to militate against the prices of traded and non-traded goods moving in quick sympathy

If this is true, then, although the maintenance of the exchange standard does imply a purchasing power parity of the rupee with gold, it is not a purchasing power parity of the two currencies with respect to *all* the commodities. All that it implies is that the purchasing power of the rupee over such commodities as entered into international trade was on a par with gold, so that there did not often arise the necessity of exhausting the gold reserve. The preservation of the gold reserve only meant that there was equality of prices so far as internationally traded goods were concerned. Thus interpreted, the fact that the rupee maintained its gold value does not preclude the possibility of Indian prices being, on the whole, higher than gold prices, thereby vitiating the *a priori* view that the exchange standard is as good as the gold standard.

It should be pointed out that all changes of prices affect more or less the welfare of the individual. However, the general flexibility of the modern economic organisation, with its mobility of capital and labour, free competition, power of choice, inventive genius and intellectual resources of entrepreneurs and merchants, takes care of the normal and temporary fluctuations of prices. But when a change in the price-level is general and persistent in one direction the case is otherwise. Arrangements based on the expectation that the price movement is only temporary, and that there will be a return to the former normal position, constantly come to naught. Suffering endured in holding on for the turn in the movement cannot be offset by gains in another. In short, such a persistent price movement in one direction is bound to confound ordinary business sagacity and so vitiate all calculations for

the future as to result in unlimited dislocation or loss and subject the individual to such powerful and at the same time incalculable influences that his economic welfare cannot but escape entirely from his control, and prudence, forethought, and energy become of no avail in the struggle for existence. Perfect stability of value in a monetary standard is as yet only an ideal. 'But the evil consequences of instability are so great that Prof. Marshall, believing as he did that the general prejudice against tampering with the monetary foundations of economic life was a healthy prejudice, yet observed that much may be done towards safeguarding the economic welfare of communities by lessening its variability. A depreciating standard of value, as gold has been since 1896, is an evil. But can a standard of value, undergoing a continuous depreciation as has been the case with the exchange standard, and that too of a greater depth than the gold standard—in other words, causing a greater rise of prices—be regraded as a good standard of value ?

In the light of this it is strange that Prof. Keynes, in his treatise on *Indian Currency and Finance*, should have maintained that the exchange standard contained an essential element in the ideal standard of the future—a view subsequently endorsed by the Chamberlain Commission. If stability of purchasing power in terms of commodities in general is the criterion for judging a system of currency, then few students of economics will be found to agree with Prof. Keynes. Perhaps it is not too sanguine to say that even the Prof. Keynes of 1920 will prefer a gold standard to a gold-exchange standard, for under the former prices have varied much less than has been the case under the latter.

In this connection attention may be drawn to the prevalent misconception that India is a gold-standard country. It will be admitted that the best practical test whether any two countries have the same standard of value is to be found in the character of the movements in their price-levels. So sure is the test that Prof. Mitchell, after a very careful and wise survey of the price-level of different countries and the American price-level during the greenback period, was led to observe that

"when two countries have a similar monetary system and important business relations with each other, the movements of their price-levels as represented by index-numbers are found to agree rather closely. This agreement is so strong that similarity of movement is usually found even when comparisons are made with material so

crude as index-numbers compiled from unlike lists of commodities and computed on the basis of actual prices in different years."

Now, we know that before the war England was a gold-standard country, and we also know that there was no close correspondence between the contemporary movements of the price-levels of India and England. In view of this, it is only a delusion to maintain that India has been a gold-standard country. On the other hand, it is better to recognise that India has yet to become a gold-standard country unless we are to fall into the same error that Prof. Fisher* must be said to have committed in attributing the extraordinary rise of prices in India to the existence of a gold standard, when, as a matter of fact, it should have been attributed to the want of a gold standard.

How can she become a gold-standard country ? The obvious answer is, by introducing a gold currency. Prof. Kenyes scoffs at the view that there cannot be a gold standard without a gold currency as pure nonsense He seems to hold that a currency and a standard of value are two different things. Surely there he is wrong. Because a society needs a medium of exchange, a standard of value, and a store of value to sustain its economic life, it is positively erroneous to argue that these three functions can be performed by different instrumentalities. On the other hand, as Professor Davenport insists

" all the different uses of money are merely different aspects or emphasis of the intermediate function. Deferred payments..... are merely deferred payments of the intermediate. So again of the standard aspect; whatever is the general intermediate is by that fact the standard. The functions are not two, but one..... Clearly, also, the intermediate may be a storehouse of purchasing power. The second half of the barter may be deferred. The intermediate is generalised purchasing power. Delay is one of the privileges which especially the intermediate function carries with it."

Thus the rupee by reason of being the currency is also the standard of value. If we wish to make gold the standard of value in India we must introduce it into the currency of India. But it may be asked what difference could it make to the price level in India if gold were made a part of the Indian currency ? To answer this question it is necessary to lay bare the nature of the rupee currency. Now it will be granted that a standard of value which is capable of expansion as well as contraction is likely to be more stable than one which is incapable of (such a manipulation. The rupee currency is capable of) easy expansion, but is not capable of easy contraction by reason of the fact that it is neither

exportable nor meltable, nor is it convertible at will. The effects, of such a currency as compared with those of an exportable currency were well brought out by the late Hon. Mr. Gokhale in a speech in which he observed.

" Now, what is the difference if you have an automatic self-adjusting currency, such as we may have with gold or we had with silver before the year 1893, and the kind of artificial currency that we have at present ? Situated as India is you will always require, to meet the demands of trade, the coinage of a certain number of gold or silver pieces, as the case may be, during the export season, that is for six months in the year. When the export season is brisk money has to be sent into the interior to purchase commodities. That is a factor common to both situations, whether you have an artificial currency, as now, or a silver currency, as before 1893. But the difference is this. During the remaining six months of the slack season there is undoubtedly experienced a redundancy of currency, and under a self-adjusting automatic system there are three outlets for this redundancy to work itself off. The coins that are superfluous may either come back to the banks and to the coffers of Government, or they may be exported, or they may be melted by people for purposes of consumption for other wants. But where you have no self-adjusting and automatic currency, where the coin is an artificial token currency, such as our rupee is at the present moment, two out of three of these outlets are stopped. You cannot export the rupee without heavy loss, you cannot melt the rupee without heavy loss, and consequently the extra coins must return to the banks and coffers of the government or they must be absorbed by the people. In the latter case the situation is like that of a soil which is water-logged, which has no efficient drainage, and the moisture from which cannot be removed. In this country the facilities for banking are very inadequate, and therefore our money does not swiftly return back to the banks or Government Treasuries. Consequently, the extra money that is sent into the interior often gathers here and there like pools of water turning the whole soil into a marsh. I believe the fact cannot be gainsaid that the stopping of two outlets out of the three tends to raise prices by making the volume of currency redundant."

Had gold formed a part of the Indian currency it would have not only met the needs for expansion but would have permitted contraction of currency in a degree unknown to the rupee. Gold would be superior to the rupee as a standard of value for the reason that the former is

expansible as well as contractible, while the latter is only expansible but not contractible. This is merely to state in different language what has already been said previously, that the Indian monetary standard, instead of being a gold or a gold-exchange standard, is in all essentials an inconvertible rupee standard like the paper pound of the Bank Suspension period, and the extra local rise of prices which in itself an inconvertible proof of the identity of the two systems, is characteristic of both, is, to use the language of the Bullion Report

" the effect of an excessive quantity of a circulating medium in a country which has adopted a currency not exportable to other countries, or not convertible at will into a coin which is exportable."

Therefore, if some mitigation of the rise in the Indian price-level is desirable, then the most essential thing to do is to permit some form of "exportable" currency such as gold to be a counterpart of the Indian monetary system.

The Chamberlain Commission expended much ingenuity in making out a case against a gold currency in India. The arguments it urged were : (1) Indian people will hoard gold and will not make it available in a crisis: (2) that India is too poor a country to maintain such an expensive money material as gold ; (3) that the transactions of the Indian people are too small to permit of a gold circulation; and (4) paper convertible into rupees is the best form of currency for the people of India as being the most economical, and that the introduction of a gold currency will militate against the popularity of notes as well as of rupees. The bogey of hoarding is an old one, and would really be an argument of some force if hoarding was something which knew no law. But the case is quite otherwise. Money, being the most saleable commodity and the least likely, in a well-ordered monetary system, to deteriorate in value during short periods, is hoarded continually by all people, i.e, treated as a store of value. But in treating it as a store of value the possessor of money is comparing the utilities he can get for the money, by disposing of it now, with those he believes he can get for it in the future, and if the highest present utility is not so great as the highest future utility, discounted for risk and time, he will hoard the money. On the other hand, he will not hoard the money if the present use was greater than the future use. That being so, it is difficult to understand why hoarding should be an objection to a gold currency for the Indian people. If they hoard gold that means they do not care to spend it on current purchases or that they have another form of currency which is inferior to gold and which they naturally like to part

with first. On the other hand, if they do wish to make current purchases and have no other form of currency they cannot hoard gold. There are instances when precious metals have been exported from India, when occasion had called for it, showing that the hoarding habit of the Indian peoples is not such an unknown quantity as is often supposed, and if on some occasions they hoarded an exportable currency when they should have released it, it is not the fault of the people but of the currency system in which the component parts of the total stock of money are not equally good as a store of value. The argument from hoarding, if it is an argument, can be used against any people, and not particularly against the Indian people.

The second argument against a gold currency in India has no greater force than the first. If gold were to disappear from circulation then the cause can be nothing else but the over-issue of another kind of money. In the nineties, when the question of establishing a gold standard in India was being considered, some people used to point to the vain efforts made by Italy and the Austrian Empire to promote the circulation of gold. That their gold used to disappear is a fact, but it was not due to their poverty. It was due to their paper issues. Any country can maintain a gold currency provided it does not issue a cheaper substitute.

Again, if gold will not circulate because transactions are too small the proper conclusion is not that there should be no gold circulation but that the unit of currency should be small enough to meet the situation. The difficulties of circulation raises a problem of coinage. But the considerations in respect of coinage cannot be allowed to rule the question as to what should be the standard of value. If the sovereign does not circulate it cannot follow that India should not have a gold currency. It merely means that the sovereign is too large for circulation. The case, if at all there is one, is against the sovereign as a unit and not against the principle of a gold currency. If the sovereign is not small enough the conclusion is we must find some other coin to make the circulation of gold effective.

The fourth argument against a gold currency is one of fact, and can be neither proved nor disproved except by an appeal to evidence whether or not gold currency has the tendency ascribed to it. But we may ask, is there no danger in a system of currency composed of paper convertible into rupees ? Will the paper have no effect on the value of the rupee ? The Commission, if it at all considered that question, which is very doubtful, was perhaps persuaded by the view

commonly held, that as the paper currency was convertible it could not affect the value or the purchasing power of the rupee. In holding this view it was wrong ; for, the convertibility of paper currency to the extent it is uncovered does not prevent it from lowering the value of the unit of account into which it is convertible, because by competition it reduces the demand for the unit of account and thus brings about a fall in its value. Thus the paper, although economical as a currency, is a danger to the value of the rupee. This danger would have been of a limited character if the rupee had been freely convertible into gold. But the danger of a convertible paper currency to the value of a unit of account becomes as great as that of an inconvertible paper currency if that unit is not protected against being driven below the metal of ultimate redemption by free convertibility into that metal. The rupee is not protected by such convertibility, and as the Commission did not want that it should be so protected it should have realised that it was as seriously jeopardizing the prospects of the rupee being maintained at par with commodities in general, and therefore with gold, by urging the extension of a paper currency, be it ever so perfectly convertible, as it could have done by making the paper altogether inconvertible. But so observed was the Commission with considerations of economy and so reckless was it with considerations of stability of value, that it actually proposed a change in the basis of the Indian paper currency from a fixed issue system to that of a fixed proportion system. That, at the dictates of considerations of economy, the Commission should have neglected to take account of this aspect of the question, is only one more evidence of the very perfunctory manner in which it has treated the whole question of stability of purchasing power so far as the Indian currency was concerned.

If there is any force in what has been urged above, then surely a gold currency is not a mere matter of "sentiment" and a "costly luxury," but a necessity dictated by the supreme interest of steadying the Indian standard of value, and thereby to some extent, however slight, safeguarding the welfare of the Indian people from the untoward consequences of a rising price-level.

We now see how very wrong the Chamberlain Commission was from every point of view in upholding the departure from the plan originally outlined by the Government of India and sanctioned by the Fowler Committee. But that raises the question : How did that ideal come to be so ruthlessly defeated ? If the Fowler Committee had proposed that gold should be the currency of India, how is it that gold ceased to be

the currency ? It cannot be said that the door is closed against the entry of gold, for it has been declared legal tender. Speaking in the language of Prof. Fisher, the movement of gold in the money reservoir of India is allowed a much greater freedom so far as law is concerned than can be said of silver. Silver, in the form of rupees, is admitted by a very narrow valve which gives it an inlet into that reservoir, but there is no outlet provided for it. On the other hand, gold is admitted into the same reservoir by a pipe-connection which gives it an inlet as well as an outlet. Why, then, does not gold flow into the currency reservoir of India ? A proper understanding on this question is the first step towards a return to the sound system proposed in 1898.

On an examination of the literature which attempts to deal with this aspect of the question, it will be found that two explanations are usually advanced to account for the non-entry of gold into the currency system of India. One of them is the sale of council bills by the Secretary of State. The effect of the sale of council bills, it is said, is to prevent gold from going to India. Mr. Subhedar, said to be an authority on Indian currency, in his evidence before the Smith Committee (Q.3,502), observed:—

"Since 1905 it has been the deliberate attempt of those who control our currency policy to prevent gold going to India and into circulation."

The council bill has a history which goes back to the days of the East India Company. The peculiar position of the Government of India, arising from the fact that it receives its revenues in India and is obliged to make payments in England, imposes upon it the necessity of making remittances from India to England. Ever since the days of the East India Company the policy has been to arrange for the remittance in such a way as to avoid the transmission of bullion. Three modes of making the remittance were open to the Directors of the East India Company: (1) sending bullion from India to England; (2) receiving money in England in return for bills on the Government of India; and (3) making advances to merchants in India for the purchase of goods consigned to the United Kingdom and repayable in England to the Court of Directors of the Company to whom the goods were hypothecated. Out of these it was on the last two that greater reliance was placed by them. In time the mode of remittance through hypothecation of goods was dropped " as introducing a vicious system of credit, and interfering with the ordinary course of trade." The selling of bills on India survived as the fittest of all the

three alternatives, and was continued by the Secretary of State in Council—hence the name, council bill—when the Government of India was taken over by the Crown from the Company. In the hands of the Secretary of State the council bill has undergone some modifications. The sales as now effected are weekly sales, and are managed through the Bank of England, which issues an advertisement on every Wednesday on behalf of the Secretary of State for India, inviting tenders to be submitted on the following Wednesday for bills payable on demand by the Government of India either at Bombay, Madras, or Calcutta. The minimum fraction of a penny in the price at which tenders of bills are received has now been fixed at $\frac{1}{32}$ nd of a penny. The council bill is no longer of one species as it used to be. On the other hand there are four classes of bills: (1) ordinary bills of exchange, sold every Wednesday, known as " *Councils* " ; (2) telegraphic transfers, sold on Wednesdays, called shortly " *Transfers* " (3) ordinary bills of exchange, sold on any day in the week excepting Wednesday, called " *Intermediates* " ; and (4) telegraphic transfers, sold on any day excepting Wednesday, named " *Specials*." Now, in what way does the Secretary of State use his machinery of council bills to prevent gold from going to India ? It is said that the price and the magnitude of the sale are so arranged that gold does not go to India. Before we examine to what extent this has defeated the policy of the Fowler Committee, the following figures (Tables LI and LI I, pp. 579 and 582) are presented for purposes of elucidation.

From an examination of these tables two facts at once become clear. One is the enormous amount of council bills the Secretary of State sells. Before the closing of the Mints the sales of council bills moved closely with the magnitude of the home charges, and the actual drawings did not materially deviate from the amount estimated in the Budget. Since the closure of the Mints the drawings of the Secretary of State have not been governed purely by the needs of the Home Treasury. Since the closure, the Secretary of State has endeavoured—

"(1) To draw from the Treasuries of the Government of India during the financial year the amount that is laid down in the Budget as necessary to carry out the Ways and Means programme of the year.

TABLE LI
BALANCE OF TRADE, COUNCIL DRAWINGS AND
IMPORTS OF GOLD BEFORE 1893

Years.	Balance of Trade (Merchandise: Private Account).	Net Imports of Treasure.		Amount of Council Bills drawn.	Excess (+) or Deficiency (—) of Bills drawn as compared with Budget Estimate.	Home Charges.	Cash Balances in the Home Treasury.	Minimum Rate for Council Bills.
		Gold.	Silver.					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	£	£	£	£	£	£	£	s. d.
		000,000	000,000					
1870-71	20,863,000	2.13	.9	—	—	10,031,261	3,305,972	1 10 1/4
1871-72	31,094,000	3.43	6.3	—	—	9,703,235	2,821,091	1 10 3/8
1872-73	23,376,000	2.41	.7	13,939,095	+ 939,095	10,248,605	2,998,444	1 10 3/8
1873-74	21,160,000	1.29	2.3	13,285,678	- 214,322	9,310,926	2,013,638	1 9 1/2
1874-75	20,137,000	1.73	4.3	10,841,615	+ 841,615	9,490,391	2,796,370	1 9 3/4
1875-76	19,204,000	1.40	1.4	12,389,613	-1,910,387	9,155,050	919,899	1 9
1876-77	23,573,000	-18	6.1	12,695,800	- 964,200	13,851,296	2,713,967	1 6 1/2
1877-78	23,758,000	.41	12.7	10,134,455	-2,115,545	14,048,350	1,076,657	1 8 3/16
1878-79	23,167,000	.74	3.3	13,948,565	-3,051,435	13,851,296	1,117,925	1 6 5/8
1879-80	26,046,000	1.45	6.5	15,261,810	+ 261,810	14,547,664	2,270,107	1 7
1880-81	21,464,000	3.03	3.2	15,239,677	-1,660,323	14,418,986	4,127,749	1 7 1/2
1881-82	32,855,000	4.02	4.5	18,412,429	+1,212,429	14,399,083	2,620,909	1 7 3/8
1882-83	31,389,000	4.01	6.1	15,120,521	- 221,479	14,101,262	3,429,874	1 7
1883-84	23,611,600	4.44	5.2	17,599,805	+1,299,805	15,030,195	4,113,221	1 7 1/4
1884-85	20,034,100	3.76	5.8	13,758,909	-2,741,091	14,100,982	2,249,378	1 6 3/4
1885-86	21,344,200	2.10	8.8	10,292,692	-3,481,008	14,014,733	4,726,585	1 5 7/8
1886-87	19,844,800	1.58	5.2	12,136,279	-1,195,121	14,409,949	5,280,829	1 4 1/8
1887-88	18,724,400	2.10	6.5	15,358,577	- 891,423	15,389,065	5,900,697	1 4 3/8
1888-89	20,271,900	1.92	6.3	14,262,859	+ 262,859	14,983,221	3,259,933	1 4
1889-90	24,557,800	3.18	7.6	15,474,496	+ 784,596	14,848,923	5,402,873	1 4
1890-91	20,733,800	4.25	10.7	15,969,034	+ 980,034	15,568,875	3,885,050	1 4 15/16
1891-92	27,632,400	1.68	6.3	16,093,854	+ 93,854	15,874,699	4,122,626	1 3 1/16
1892-93	29,287,300	1.75	8.0	16,532,215	- 467,785	16,334,541	12,268,388	1 2 5/8

" (2) To draw such further amounts as may be required to pay for purchases of silver bought for coinage purposes.

"(3) To draw such further amounts as an unexpectedly prosperous

season may enable the Government to spare, to be used towards the reduction or avoidance of debt in England.

"(4) To sell additional bills and transfers to meet the convenience of trade.

" (5) To issue telegraphic transfers on India in payment for sovereigns which the Secretary of State has purchased in transit from Australia or from Egypt to India." The result of such drawings is that the councils are made to play an enormous part in the adjustment of the trade balance of India and the swelling of balances in the Home Treasury and the locking up of Indian funds in London.

The second point to note in comparing the preceding tables is with regard to the price at which the Secretary of State makes his sales. Before the closure of the Mints the price of the council bills was beyond the control of the Secretary of State, who had therefore to accept the price offered by the highest bidder at the weekly sale of his bills. But it is objected that there is no reason why the Secretary of State should have continued the old practice of auctioning the rupee to the highest bidder when the closing of the Mints had given him the sole right of manufacturing it. Availing himself of his monopoly position, it is insisted, the Secretary of State should not have sold his bills below 1s. 4 1/8d. or 1s. 4 3/32d., which, under the ratio of 15 rupees to the sovereign, was for India the gold-import point. In practice the Secretary of State has willed away the benefit of his position, and has accepted tenders at rates below gold-import point, as may be seen from the minimum rates he has accepted for his bills.

It is said that if the council bills were sold in amounts required strictly for the purposes of the Home Treasury, and sold at a price not below gold-import point, gold would tend to be imported into India and would thus become part of the Indian currency media. As it is, the combined effect of the operations of the Secretary of State is said to be to lock up Indian gold in London. With the use or misuse of the Indian gold in London we are not here concerned. But those who are inclined to justify the India Office scandals in the management of Indian funds in London, and have offered their services to place them on a scientific footing, may be reminded that a practice on one side of Downing Street which Bagehot said could not be carried on on the other side of it without raising a storm of criticism, would require more ingenuity than has been displayed in their briefs. This much seems to have been admitted on both sides that the operations of the Secretary of State do

prevent the importation of gold into India, not altogether, but to the extent covered by their magnitude. Now, those who have held that the ideal of the Fowler Committee has been defeated are no doubt right in their view that the narrowing of the Secretary of State's operation would lead to the importation of gold into India. But what justification is there for assuming that the imported gold would become a part of the currency of India ? The assumption that the abolition of the Secretary of State's financial dealings would automatically make gold the currency of India is simply a gratuitous assumption. Whether the imported gold would become current depends on quite a different circumstance.

The other explanation offered to explain the failure of the ideal of the Fowler Committee is the want of a Mint in India open to the free coinage of gold. The opening of the Mints to the free coinage of gold has been regarded as the most vital recommendation of the Fowler Committee ; indeed, so much so that the frustration of its ideal has been attributed to the omission by the Government to carry it out. The consent given by the Government in 1900 to drop the proposal under the rather truculent attitude of the Treasury has ever since been resented by the advocates of a gold currency. A resolution was moved in 1911 by Sir V. Thackersay, in the Supreme Legislative Council, urging upon the Government the desirability of opening a gold Mint for the coinage of the sovereign if the Treasury consented, and if not for the coinage of some other gold coin.

TABLE LII
BALANCE OF TRADE, COUNCIL DRAWINGS AND IMPORTS OF
GOLD AFTER 1893

Years.	Balance of Trade (Merchandise: Private Account).	Net Imports of Treasure.		Amount of Council Bills drawn.	Excess (+) or Deficiency (—) of Bills drawn as compared with Budget Estimate.	Home Charges.	Cash Balances In the Home Treasury.	Minimum Rate for Council Bills.
		Gold.	Silver.					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	£	£	£	£	£	£		s. d.
		000,000	000,000					
1893-94	21,660,500	- .39	8.3	9,530,235	- 9,169,765	15,826,815	1,300,564	1 1.500
1894-95	25,765,000	- 2.7	3.4	16,905,102	- 94,898	15,707,367	1,503,124	1 0.000

1895-96	29,963,800	1.5	3.7	17,664,492	+ 664,492	15,603,370	3,393,798	1 1-000
1896-97	21,333,100	1.4	3.5	15,526,547	- 973,453	15,795,836	2,832,354	1 1-781
1897-98	18,847,000	3.2	5.4	9,506,077	- 3,493,923	16,198,263	2,534,244	1 2-250
1898-99	29,560,700	4.3	2.6	18,692,377	+ 2,692,377	16,303,197	3,145,768	1 3-094
1899-1900	25,509,600	6.3	2.4	19,067,022	+ 2,067,022	16,392,846	3,330,943	1 3-875
1900-01	20,727,400	.5	6.3	13,300,277	- 3,139,723	17,200,957	4,091,926	1 3-875
1901-02	28,630,600	1.3	4.8	18,539,071	+ 2,039,071	17,368,655	6,693,137	1 3-875
1902-03	33,352,600	5.8	4.6	18,499,946	+ 1,999,946	18,361,821	5,767,787	1 3-875
1903-04	45,424,100	6.6	9.1	23,859,303	+ 6,859,303	18,146,474	7,294,782	1 3-875
1904-05	40,548,200	6.5	8.9	24,425,558	+ 7,925,558	19,463,757	10,262,581	1 3-969
1905-06	39,086,700	.3	10.5	32,166,973	-1-14,333,973	18,617,465	8,436,519	1 3-938
1906-07	45,506,600	9.9	16.0	33,157,196	+15,357,196	19,208,408	5,606,812	1 3-969
1907-08	31,640,000	11.6	13.0	16,232,062	- 1,867,938	18,487,267	5,738,489	1 3-906
1908-09	21,173,300	2.9	8.0	13,915,426	- 4,584,574	18,925,159	8,453,715	1 3-906
1909-10	47,213,000	14.5	6.3	27,096,586	+10,896,586	19,122,916	15,809,618	1 3-906
1910-11	53,685,300	16.0	5.8	26,783,303	+11,283,303	19,581,563	18,174,349	1 3-906
1911-12	59,512,900	25.1	3.6	27,058,550	+ 9,900,250	19,957,657	19,463,723	1 3-937
1912-13	57,020,900	22.6	11.5	25,759,706	+10,259,706	20,279,572	9,789,634	1 3.969
1913-14	43,753,900	15.6	8.7	31,200,827	+10,000,827	20,311,673	3,157,732	1 3.937
1914-15	29,108,500	5.1	5.9	7,748,111	-12,251,889	20,208,598	7,913,236	1 3-937
1915-16	44,026,600	- .7	3.-2	20,354,517	+13,354,517	20,109,094	12,803,348	1 3-937
1916-17	60,843,200	8.82	12.5	32,998,095	+29,093,095	21,145,627	11,391,993	1 4-031
1917-18	61,420,000	16.8	12.7	34,880,682	+34,880,682	26,065,057	16,625,416	1 4-156
1918-19	56,540,000	- 3.7	45.3	20,946,314	+20,946,314	23,629,495	14,715,827	1 4-906

In deference to the united voice of the Council, the Government of India again asked the Secretary of State to approach the Treasury for its sanction. The Treasury on this occasion presented the Secretary of State with two alternatives : (1) That a branch of the Royal Mint be established at Bombay solely for the purpose of coining gold into sovereigns, and exclusively under its control ; or (2) that the control of the Mint at Bombay should be entirely transferred to it. Neither of the two alternatives was acceptable to the Government of India ; and the Secretary of State, as a concession to Indian sentiment, sanctioned the issue of a ten-rupee gold coin from the Indian Mint. The Government of India preferred this solution to that suggested by the Treasury, but desired that the matter be dealt with afresh by the Chamberlain Commission then sitting. That Commission did not

recommend a gold Mint, but saw no objection to its establishment provided the coin issued was a sovereign, and if the coinage of it was desired by Indian sentiment and if the Government did not mind the expense of coinage. This view of the Commission carried the proposition no further than where it was in 1900, until the war compelled the Government to open the Bombay Mint for the coinage of gold as a branch of the Royal Mint. But it was again closed in 1919. Its reopening was recommended by the Currency Committee of 1919, and so enthusiastically was the project received that an Honourable Member of the Supreme Council took the unique step of tempting the Government into adopting that recommendation by an offer to increase the Budget Estimates under " Mint " to enable the Government to bear the cost of it. The Government, however, declined the offer with thanks so we have in India the singular spectacle of a country in which there was a Gold Mint even when Gold was not legal tender, as was the case between 1835-93, while there is no gold Mint, when gold is legal tender, as has been the case since 1893. Just what an open Mint can do in the matter of promoting the ideal of the Fowler Committee it is difficult to imagine; but the following extracts from the evidence of a witness (Mr. Webb), than whom there was no greater advocate of an open gold Mint before the Chamberlain Commission, help to indicate just what is expected from a gold Mint.

" The principal advantage which you would expect to derive from a gold Mint is that you would increase the amount of gold coin in circulation ?—That would be one of the tendencies.

" Is there any other advantage ?—The advantage is that the country would be fitted with what I regard as an essential part of its monetary mechanism. I regard it as an essential part of its currency mechanism that it should have a Mint at which money could be coined at the requisition of the public.

" I want to get exactly at your reason why that is essential. Am I right in thinking that you consider it essential to a proper currency system that there should be a gold currency ?— Yes.

"And essential to a gold currency that there should be a gold Mint ?—Yes, on the spot in India itself..... It would do away, in a measure, with the management by the Secretary of State of the Foreign Exchanges, in that there would be always the Mint at which the public could convert their gold into legal-tender coins in the event of the Secretary of State taking any action of which the public did not approve. It is a safeguard, so to speak, an additional safeguard, that

the people of India can on the spot obtain their own money on presentation of the metal."

Here, again, the assumption that a gold Mint is a guarantee that there will be a gold currency seems to be one as gratuitous as the former assumption that if gold were allowed to be freely imported it would on that account become part of the currency. On the other hand, there are cases where Mints were open, yet there was neither gold coinage nor gold currency. Instances may be cited from the history of the coinage at the Royal Mint in London. The magnitude of gold coinage during the bank suspension period, 1797-1821, or the late war, 1914-18, is instructive from this point of view. The Mint was open in both cases, but what was the total coinage of gold? Throughout the suspension period the gold coined was negligible, and during the years 1807, 1812, and 1814-16 no gold was coined at all at the Royal Mint. Again, during the late war the coinage of gold fell off from 1915, and from 1917 it ceased altogether.

These instances conclusively show that although a Mint is useful institution, yet there is no magic in a Mint to attract gold to it. The historical instances adduced above leave no doubt that the circulation of gold is governed by factors quite independent of the existence or non-existence of a Mint open to the free coinage thereof.

Now, it is an established proposition of political economy that when two kinds of media are employed for currency purposes the bad one drives out the good one from circulation. Applying this principle to the situation in India, it should be evident that so long as there is an unlimited issue of rupees gold cannot circulate in India. This important principle has been so completely overlooked by those who have insisted on the introduction of a gold currency that they have not raised a finger against the unlimited issue of rupees. Mr. Webb, the fiercest opponent of the India Office malpractices, and the staunchest supporter of the view that if only the Secretary of State could be made to contract his drawings gold would flow and be a part of the currency in India, recommended to the Chamberlain Commission that—

"The sales of Council Drafts should be strictly limited to the sum required to meet the Home Charges, and no allotments should in any circumstances be made below, say, 1s. 4 1/8d. to 1s. 4 3/32 d.—i.e. about the present equivalent of specie point for gold imports into India. The sum required in London for Home Charges having been realised, *no further sales of Council Drafts should be made except for the express purpose—duly notified to the public—of purchasing metal for*

the manufacture of further token coinage. Such special sales of Council Drafts should not be made at anything below specie point for gold imports."

Again, Sir V. Thackersay, in the course of his speech on March 22, 1912, moving a resolution in the Legislative Council, asking the Government to open the Mint for the coinage of gold in India, observed :—

" Let me make myself clear on one point. / *do not suggest that Government should give up the right to coin rupees or refuse to give rupees when people demand the same.* I do not propose to touch the gold-standard reserve, which must remain as it is as the ultimate guarantee of our currency policy. My proposal does not interfere with the existing arrangements in any way, but is merely supplementary to them..... Let the Government of India accumulate gold to the maximum limit of its capacity, but let the surplus gold which it cannot absorb be coined and circulated if the public chooses to do so. With our expanding trade and the balance in our favour, gold will continue to be imported in ordinary time, and *if the facilities of minting are provided in India, it will go into circulation.* "

These are surely not the ways of promoting a gold currency. Indeed, they run counter to it. So long as the coinage of rupees goes on gold will not enter into currency. Indeed, to cry out on the one hand against the huge drawings of the Secretary of State and the consequent transfer of Indian funds to London and their mismanagement by the Secretary of State, and on the other hand to permit him to manufacture additional token coinage of rupees, is to display not only a lamentable ignorance of a fundamental principle of currency, but also to show a complete failure to understand the precise source from which the whole trouble arises. It is true that the Government of India cannot bind the Secretary of State to any particular course of action , and he often does override the provisions of the Annual Budget. But the question remains. How is it that he is able to draw so much more after 1893 than he ever did before ? It must be remembered that whatever the Secretary of State does with the funds in London he must pay for his drawings in India. Before 1893 he drew less because his means of payment were less ; after 1893 he drew more because his means of payment were greater. And why were his means of payment greater ? Simply because he had been able to coin rupees. Indeed, the amount of drawings are limited by the demand for them and by his capacity to coin rupees. It is therefore foolish to blame the Secretary of State for

betraying the interests of India and at the same time to permit him to coin rupees, the very means by which he is able to betray. If a gold currency is wanted, and it is wanted because the rupee is a bad standard of value, then what is necessary is not to put a limit on the drawings of the Secretary of State or the opening of a gold Mint, but a short enactment stopping the coinage of rupees. Then only gold—made legal tender, at a suitable ratio with the rupee—will become a part of Indian currency.

That the stoppage of rupee coinage is a sufficient remedy is amply corroborated by the now forgotten episode in the history of Indian currency during the years 1898-1902. Within the short space of a year and a half after gold had been made legal tender the Hon. C. E. Dawkins, notwithstanding the fact that there was no gold Mint, was able, in his Budget speech in March, 1901, to observe:—

" India has at length emerged from a period of transition in her currency, has reached the goal to which she has been struggling for years, has established a gold standard and a gold currency, and has attained that practical fixity in exchange which has brought a relief alike to the private individual and to the Government finances." So great was the plethora of gold that Mr. Dawkins further remarked —

"..... We have been nearly swamped..... by gold....." The transformation in the currency position which then took place was graphically described by Lord Curzon, the then Viceroy, in the following words':—

"Mr. Dawkins..... has successfully inaugurated the new era under which the sovereign has become legal tender in India, and stability in exchange has assumed what we hope may be a stereotyped form. This great change has been introduced in defiance of the vaticinations of all the prophets of evil, and more especially of the particular prophecy that we could not get gold to come to India, that we could not keep it in our hands if we got it here, but that it would slip so quickly through our fingers that we should have even to borrow to maintain the necessary supply. As a matter of fact, we are almost in the position of the mythological king, who prayed that all he touched might be turned into gold, and was then rather painfully surprised when he found that his food had been converted into the same somewhat indigestible material. So much gold, indeed, have we got, that we are now giving gold for rupees as well as rupees for gold, i.e. we are really in the enjoyment of complete convertibility—a state of affairs which would have been derided as impossible by the

experts a year ago."

Compare this state of affairs in 1900-1 with that found to exist in 1910-11, for instance. Speaking of the currency situation as it was in that year, the Hon. Sir James (now Lord) Meston, observed:—

" We have passed through many changes in currency policy and made not a few mistakes. but the broad lines of our action and our objects are clear and unmistakable, and there has been no great or fundamental sacrifice of consistency in progress towards our ideal. Since the Fowler Committee that progress has been real and unbroken. There is still one great step forward before the ideal can be reached. We have linked India with the gold countries of the world, we have reached a gold-exchange standard, which we are steadily developing and improving. The next and final step is a true gold currency. That, I have every hope, will come in time....."

Leaving aside for the moment the extenuatory remarks of the speaker, the fact remains that in 1900 India had a gold currency. But, taking stock of the position at the end of 1910, it had ceased to have it. What is it that made this difference ? Nothing but the fact that between 1893-1900 no rupees were coined, but between 1900-1910 the number of rupees coined was enormous. During the first period the inducement to coin rupees was very great indeed. The exchange was not quite stable, and the Government had still to find an increasing number of rupees to pay for the " Home Charges." And an Honourable Member of the Supreme Legislative Council actually asked:—

" Is there any objection to the Government working the Mints on their own account ? Considering the low value of silver and the great margin between the respective prices of bullion and the rupee, would not Government by manufacturing rupees for itself make sufficient profit to meet at least a substantial portion of the present deficit ? It seems to me to be a legitimate source of revenue and one capable of materially easing our finances."

But Sir James Westland, who was then in charge of the finances of India, replied :—

" I must confess to a little surprise in finding the proposal put forward by one of the commercial members of your Excellency's Council that we should buy silver at its present low price, and coin it for issue at the appreciated value of the rupee..... I shall certainly refuse myself to fall into this temptation."

Again, 1898, when some of the followers of Mr. Lindsay desired that Government should coin rupees to relieve the monetary stringency, Sir

James Westland remarked :—

"..... in our opinion the silver standard is now a question of the past. It is a case of *vestigia nulla retrorsum*. The only question before us is how best to attain the gold standard. We cannot go back to the position of the open Mints. There are only two ways in which we can go back to that position. We can either open the Mints to the public generally, or we can open them to coinage by ourselves. In either case what it means is that the value of the rupee will go down to something approaching the value of silver. If the case is that of opening the Mints to the public, the descent of the rupee will be rapid. If it is that of opening only to coinage by the Government, the descent of the rupee may be slow but it will be no less inevitable."

The Hon. C. E. Dawkins was equally emphatic in his denunciation of the project of Government coining rupees. When he was tempted to acquiesce in the proposal by holding out the prospects of a profit from coinage, he replied:— "I think I ought..... to beg my hon. friend not to dangle the profits on silver too conspicuously before the eyes even of a most virtuous government. Once let these profits become a determining factor in your action, then good-bye stability." Another instance of the Government's determination not to coin rupees is furnished by inquiring into the reasons as to why it is that the Government has never assumed the responsibility of selling council bills in indefinite amount and at a fixed rate. The Chamberlain Commission argued that the Government cannot undertake such a responsibility because it cannot hold out for a fixed rate, and may have to sell at any rate even lower than par. This is true so far as it is a confession of a position weakened by the Government's folly of indulging in excessive rupee coinage. But this was certainly not the explanation which the Government gave in 1900 when it was first asked to assume that responsibility. The Government knew perfectly well that to keep on selling bills indefinitely was to keep on coining rupees indefinitely. They refused to assume that responsibility because they did not want to coin rupees. That this was the original reason was made quite plain by the Hon. Mr. Dawkins, who reminded those who asked Government to undertake such a responsibility that "the silver coin reserve of Government in consequence rapidly neared a point at which it was impossible to continue to meet unlimited transfers [i.e. council bills]. Therefore the Secretary of State decided to limit the demands by gradually raising the rate, thus meeting the most urgent demands, and weeding out the less urgent, while warning those whose

demands were not so urgent to ship gold to India. No other course was practicable. The liability of the Secretary of State to keep the tap turned on indefinitely at 1s. 4 5/32d. has been asserted. But I cannot see that any positive liability exists, and I wonder if those who assert its existence would have preferred that the stability of our currency (whose situation they are well able to appreciate and follow) should have been affected by the reserve of rupees being dangerously reduced ?" [and which could not be augmented except by coining more rupees].

Just at the nick of time, when the ideal of a gold standard with a gold currency was about to be realised, there came on the scene Sir Edward Law as the Finance Minister of India and tore the whole structure of the new currency to pieces with a piratical nonchalance that was as stupid as it was wanton. His was the Minute of June 28, 1900, which changed the whole course of events. In that Minute occurs the following important passage;—

"15. As a result of these considerations it must, I think, be admitted that the amount of gold which can safely be held in the currency reserve must for the present be regulated by the same rules as would guide the consideration of the amount by which the proportion invested in government securities could be safely increased. Pending an increase in the note circulation..... or some other change in existing conditions, I am of opinion that a maximum sum of approximately £ 7,000,000 in gold may now be safely held in the currency reserve. I should not, however, wish to be bound absolutely to this figure, which is necessarily an arbitrary one, and particularly I should not wish any public announcement to be made which might seem to tie the hands of the Government in the event of circumstances, at present unforeseen, rendering its reduction hereafter desirable."

In outlining this Minute, which with modifications in the maximum gold to be held in the currency reserve, remains the foundation of the currency system in India, the author of it never seems to have asked for one moment what was to happen to the ideal of a gold standard and a gold currency ? Was he assisting the consummation of the gold standard or was he projecting the abandonment of the gold standard in thus putting a limit on the holding of gold ? Before the policy of this Minute was put into execution the Indian currency system was approximating to that of the Bank Charter Act of 1844, in which the issue of rupees was limited and that of gold unlimited. This Minute

proposed that the issue of gold should be limited and that of rupees unlimited—an exact reversal to the system of the Bank Suspension period. In this lies the great significance of the Minute, which deliberately outlined a policy of substituting rupees for gold in Indian currency and thereby defeating the ideal held out since 1893 and well-nigh accomplished in 1900.

If Sir Edward Law had realised that this meant an abandonment of the gold standard, perhaps he would not have recorded the Minute. but what were the considerations alluded to in the Minute which led him thus to subvert the policy of a gold standard and a gold currency and put a limit on the gold part of the currency rather than on the rupee part of the currency ? They are to be found in a despatch, No. 302, dated September 6, 1900, from the Government of India, which says:—

"2. the receipts of gold continued and increased after December last. For more than eight months the gold in the currency reserve has exceeded, and the silver has been less, than the limits suggested in the despatch of June 18. By the middle of January the stock of gold in the currency reserve in India reached £5,000,000. The proposal made in that despatch was at once brought into operation; later on we sent supplies of sovereigns to the larger District Treasuries, with instructions that they should be issued to anyone who desired to receive them in payments due or in exchange for rupees; and in March we directed the Post Office to make in sovereigns all payments of money orders in the Presidency towns and Rangoon, and we requested the Presidency Banks to make in the Presidency towns and Rangoon payments on Government account as far as possible in sovereigns. These measures were taken, not so much in the expectation that they would in the early future relieve us of any large part of our surplus gold, but in the hope that they would accustom the people to gold, would hasten the time when it will pass into general circulation in considerable quantities, and by so doing, would mitigate in future years the difficulties that we were experiencing from the magnitude of our stock of gold and the depletion of our stock of rupees.

"3. In order to meet these difficulties and to secure, if possible, that we should have enough rupees for payment to presenters of currency notes and tenderers of gold, we began to coin additional rupees.....

"14. We may mention that we have closely watched the result of

the measures described in paragraph 2. The issues of gold have been considerable; but much has come back to us through the Currency Department and the Presidency banks. The Comptroller-General estimated the amount remaining in circulation at the end of June at over a million and a quarter out of nearly two millions issued up to that time ; but there are many uncertain data in the calculation. We are not yet able to say that gold has passed into use as money to any appreciable extent.

"15. It is very desirable that we should feel assured of being able to meet the public demand for rupees, as indicated by the presentation of currency notes and gold. We therefore strongly press on your Lordship the expediency of sanctioning the above proposal for further coinage [of rupees];...

"17. But we do not wish our proposal to be considered as dependent on such arguments as those just stated. We make it primarily on the practical ground that we consider it necessary in order to enable us to fulfil an obligation which, though we are not, and do not propose to be, legally committed thereto, we think it desirable to undertake so long as we can do it without excessive inconvenience; namely, to pay rupees to all tenderers of gold and to give rupees in encashment of currency notes to all who prefer rupees to sovereigns."

The arguments advanced in this statement of the case for coining rupees are a motley lot. At the outset it is something unheard of that a Government which was proceeding to establish a gold standard and a gold currency should have been so very alarmed at the sight of increased gold when it should have thanked its stars for such an early consummation of its idea. Leaving aside the psychological aspect of the question, the government, according to its own statement, undertook to coin rupees for two reasons: (1) because it felt itself obliged to give rupees whenever asked for, and (2) because people did not want gold. What force is there in these arguments ? Respecting the first argument it is difficult to understand why Government should feel itself obliged to give rupees. The obligation of a debtor is to pay the legal-tender money of the country. Gold had been made legal tender, and the Government could have discharged its obligations by paying out without shame or apology. Secondly, what is the proof that people did not want gold ? It is said that the fact that

the gold paid out by Government returned to it is evidence enough that people did not want it. But this is a fallacy. In a country like India Government dues form a large part of the people's expenditure, and if people used that gold to meet those dues—this is what is meant by the return of gold to Government—then it is an evidence in support of the contention that people were prepared to use gold as currency. But if it is true that people do not want gold, how does it accord with the fact that Government refuses to give gold when people make a demand for it ? Does not the standing refusal imply that there is a standing demand ? There is no consistency in this mode of reasoning. The fact is, all this confused advocacy is employed to divert attention from the truth that the Government was anxious to coin rupees not because people did not want gold, but because Government was anxious to build a gold reserve out of the profits of additional coinage of rupees. That this was the underlying motive is manifest from the minute of Sir Edward Law. That the argument about people disliking gold, and so forth, and so forth, was only a cover for the true motive comes out prominently from that part of the Minute in which its author had argued that —

"16. If it be accepted that £ 7,000,000 is the maximum sum which, under existing conditions, can be held in gold in the currency reserve, in addition to the 10 crores already invested, it is evident that such assistance as can be obtained from manipulating the reserve will fail to provide the sum in gold which it is considered advisable to hold in connection with the maintenance of a steady exchange. So far no authority has ventured to name a definite sum which should suffice for this purpose, but there is a general consensus of opinion, in which I fully concur, that a very considerable sum is required. The most ready way of obtaining such a large sum is by gold borrowings, but the opinion of the Currency Commission was strongly hostile to such a course, and the question therefore remains unanswered : How is the necessary stock of gold to be obtained ?

"17. I do not presume to offer any cut-and-dried solution of this difficult problem, but I venture to offer certain suggestions which, if adopted, would, I believe, go a considerable way towards meeting the difficulty. I propose to create a special ' Gold Exchange Fund,' independent of, but in case of extraordinary requirements for exchange purposes to be used in conjunction with the gold resources of the currency reserve. The foundation of this fund would be the profit to be realised by converting into rupees the

excess above £7,000,000 now held in gold in the currency reserve."

Can there be any doubt now as to the true cause for coining rupees ? Writers who have broadcasted that rupees were coined because people did not want gold cannot be said to have read correctly the history of the genesis of the exchange standard in India.

But was Sir Edward Law the evil genius who turned a sound system of currency into an unsound one by his disastrous policy of coining rupees ? Opponents of the Government as well as its supporters are all agreed that this was a departure from the ideal of the Fowler Committee. In what precise respect the Government has departed from the recommendations of the Fowler Committee has, however, never been made clear anywhere in the official or non-official literature on the subject of Indian currency. What were the recommendations of the Fowler Committee ? It is usually pointed out, to the shame of the Government of India, that the Fowler Committee had said (it is as well to repeat it) :—

" We are in favour of making the British sovereign a legal tender and a current coin in India. We also consider that, at the same time, the Indian Mints should be thrown open to the unrestricted coinage of gold..... Looking forward as we do to the effective establishment of a gold standard and currency based on the principles of the free inflow and outflow of gold, we recommend these measures for adoption."

That is true. But those who have blamed the Government have forgotten that same Committee also recommended that—

"The exclusive right to coin fresh rupees must remain vested in the Government of India; and though the existing stock of rupees may suffice for some time, regulations will ultimately be needed for providing such additions to the silver currency as may prove necessary. The Government should continue to give rupees for gold, but fresh rupees should not be coined until the proportion of gold in the currency is found to exceed the requirements of the public. We also recommend that any profit on the coinage of rupees should not be credited to the revenue or held as a portion of the ordinary balance of the Government of India, but should be kept in gold as a special reserve, entirely apart from the paper-currency reserve and the ordinary Treasury balances " [and be made freely available for foreign remittances whenever the exchange falls below specie point.]

Taking the two recommendations of the Committee together, where is the departure ? What the Government has done is precisely what the Committee had recommended. That the Government of India or

the Chamberlain Commission should have admitted for a moment that there was a departure is not a little odd, for the very despatch which conveyed the Minute of Sir Edward Law to the Secretary of State opens with remarks which show that Government was earnestly following the recommendations of the Fowler Committee. It runs:—

"In our despatch No. 301 of August 24, 1899, we wrote with reference to paragraph 60 of the Report of the Indian Currency Committee [i.e. the Fowler Committee], that any profit made on rupee coinage should be held in gold as a special reserve, has not escaped our attention ; but the need for the coinage of additional rupees is not likely to occur for some time, and a decision on this point may be conveniently deferred."

What Sir Edward Law did was to carry that recommendation into effect when the occasion arrived. In view of this it is useless to belabour the Government of India if the ideal of a gold standard with a gold currency was defeated by the coinage of rupees. But, even though the Government has in ignorance taken the blame on itself, it cannot be rightly thrown at its door. If the project has been defeated by the coinage of rupees, the question must be referred to the Fowler Committee. Why did the Committee permit the coinage of rupees ? There is no direct answer, but it may be guessed. It seems the Committee first decided that there should be a gold standard and a gold currency as desired by the government of India. But then they seemed to have been worried by the question whether in the ideal they had sketched they had made enough provision for the maintenance of the gold value of the rupee. In the view of the opponents of the Government of India the rupee ought to have been made either convertible as a bank note or a limited legal tender as a shilling. The Committee rejected both these demands as being unnecessary. Stating their ground for refusing to reduce the rupee to the status of a shilling, the Committee argued:—

" It is true that in the United Kingdom the silver currency has a fixed limit of 40s., beyond which it cannot be used to pay a debt..... While it cannot be denied that 40s. limitation tends to emphasise and maintain the subsidiary character of our silver coinage, yet the essential factor in maintaining those tokens at their representative nominal value is not the statutory limit on the amount for which they are a legal tender in any one payment, but the limitation of their total issue. Provided the latter restriction is adequate, there is no essential reason why there need be any limit on the amount for which tokens are a tender by law."

Regarding the necessity for convertibility the Committee observed :—

"Outside the United Kingdom there are two principal instances of countries with a gold standard and currency, which admit silver coins to unlimited tender. These countries are France and the United States of America. In France the five-franc piece is an unlimited tender and for all internal purposes is equivalent to gold. The same remark applies in the United States to the silver dollar..... Both in France and the United States the Mints are now closed to the coinage of silver coins of ultimate tender. In neither country are such coins convertible by law into gold ; in both countries alike they are equivalent to gold for all internal purposes. For international payments, so far as specie is concerned, France and the United States depend ultimately on the international medium of exchange, which is gold. In the last resort, it is their gold which, acting through the foreign exchanges, maintains the whole mass of their currency at its nominal value for internal purposes.

"The position of the currency question in India being such as we have explained in the preceding paragraph, we do not consider it necessary to recommend a different policy in the case of that country from that which is found sufficient in France and the United States, by imposing a legal obligation on the Government of India to give gold for rupees, or, in other words, to substitute the former for the latter on the demand of the holders. This obligation would impose on the Government of India a liability to find gold at a moment's notice to an amount which cannot be defined beforehand, and the liability is one which, in our opinion, ought not to be accepted."

Although confident of its opinions, the Committee was considerably impressed by those who, owing to the large quantity of rupees in circulation, entertained doubts

"whether the mere closing of the Indian Mints to silver would in practice be attended with such a restriction of the rupee currency as would make the rupee permanently exchangeable for gold at a fixed rate." So much was the Committee shaken by these doubts that it admitted that

" the forces which affect the gold value of the rupee are complicated and obscure in their mode of operation, and we are unable, therefore, to say positively that the mere closing of the Mints to silver will, in practice, lead to such a limitation of the rupee currency, relatively to the demands for it, as will make the rupee permanently exchangeable for gold at a fixed rate."

As a remedy against such a contingency the Committee thought that the Government of India should accept the obligation of convertibility of the rupee into gold for foreign remittances whenever the rupee fell below specie point. Having hit upon such a simple solution the next question was how was the Government to get its gold reserve ? Borrowing for the purposes of such a gold reserve was one way of doing it. But that project was somehow unpalatable to the Committee. Perhaps because it had admonished the Government, in another part of its Report, to

"husband the resources at their command, exercise a resolute economy, and restrict the growth of their gold obligations,"
or because it was a vicious principle to borrow

"for the establishment or the maintenance of a gold standard,'
the Committee was averse to the proposal for gold borrowing. But if a gold reserve was not to be built up by borrowing, how could it be built up otherwise ? The Committee seems to have been considerably troubled over the problem of finding an alternative mode of raising a reserve until some member of it, probably at a moment when his intellect was rather weak, proposed 'Well, why not allow the Governments to coin rupees ? If that were allowed it could easily build up a gold reserve without having to borrow, and can then discharge the obligation of convertibility for foreign remittances.' So innocuous seemed the proposal that the Committee wholeheartedly adopted and incorporated it into its Report with a certain sigh of relief that is unmistakable from the firm language in which it was expressed.

This may or may not be a correct interpretation of the reasoning employed by the Committee in permitting the Government to coin rupees. But the fact remains that the Committee did not realise what was involved in that recommendation. First of all, what was to happen to the gold standard and currency if the coinage of rupees was to go on? In this regard is it possible to have more respect for a Committee which lays down on the one hand the ideal of a gold standard and currency, and permits on the other hand the coinage of rupees, than Bagehot felt for the Directors of the Bank of England, who on March 25, 1819, passed that notorious resolution —

" That the Court cannot refrain from adverting to an opinion, strongly insisted upon by some, that the Bank has only to reduce its issues to obtain a favourable turn in the Exchanges, and a consequent influx of the precious metals; the Court conceives it to be its duty to declare that it is unable to discover any solid foundation for

such a sentiment."

If the opinions of the Directors were classical for their nonsense, are those of the Fowler Committee less so ? Is there any difference between them ? Bagehot, in commenting upon the sentiments embodied in the resolution, not dissimilar to the recommendations of the Fowler Committee, urged some extenuating circumstances which compel us to forgive the Bank Directors their nonsense. The Directors lived in an age when economic reasoning was in a confused state; nor were they anxious for the " influx of gold," being perfectly satisfied with paper. None of these circumstances can excuse the nonsense of the Fowler Committee. They framed their recommendations at a time when the contrary of what the Bank Directors had held was an established axiom. Besides, it cannot be said that they were not anxious for the influx of gold into the Indian currency. On the other hand, that was just the thing they were looking forward to. Consequently, they should have carefully weighed their words and allowed nothing that was inconsistent with their main object. In not paying sufficient heed to that elementary principle known as Gresham's Law, the Committee not only made a fool of itself but defeated the principal object it had set forth in the earlier part of its Report.

Secondly, was it necessary to endow the Government with a power to coin rupees ? What was the nature of the problem the Committee was called upon to decide ? Let us re-state it. The Herschell Committee, by way of modifying the proposals of the Government of India, submitted to it in 1892, had introduced a proviso by which the Mints, although closed to the public, were to remain open to the Government for the coinage of rupees—a proviso which, by the way, reveals that after all that imposing survey the Committee remained supremely ignorant of the secret why, in the monetary systems it investigated, the currency maintained its parity with gold with little or no gold. If it had understood that it was limitation of issue which maintained this parity it would not have introduced the proviso which it did. However pernicious the proviso, the Committee must be excused for that indiscretion, for it was afraid that owing to the Mint closure there might be a sudden contraction of currency, and as it had not made gold general legal tender it had to provide for the necessary addition to the currency, and this it thought could best be done by Government having the power to coin rupees. Fortunately for the Government the occasion for an addition did not arise for some time,

till 1898, and there was therefore no necessity to exercise, that power. But when such an occasion did arise the Government, as was pointed out before, refused to exercise that power—and held to the view that the additions to Indian currency, instead of being made by further coinage of rupees, should be made by an influx of gold. The government was the strongest opponent of Mr. Lindsay, who was then agitating that it was safe and economical to compel it to make the necessary additions by undertaking to coin rupees. It was to adjudicate in the dispute between the Government of India on the one hand and Mr. Lindsay on the other, the former desiring additions by gold coinage and the latter by rupee coinage, that the Fowler Committee was called into being. If the Government was anxious to add to the currency by coining more rupees rather than by the influx of gold, there was no necessity to appoint the Fowler Committee, Such a power had already been given to it by the Hershell Committee. It was because the Government did not want to exercise that ill-charged power that an appeal to a new Committee became necessary. Faced with this immediate problem of how best to expand the currency in relief of monetary stringency, the Committee had solved it in one part of its Report by prescribing that gold should be made legal tender, so that any debtor who was unable to find rupees could have the option of paying his creditors in gold. If gold was allowed to be the general medium of exchange, was not the proposal to coin rupees a superfluous one, quite uncalled for?

Thirdly, could the proposal to coin rupees as a means of building up a gold reserve be justified as calculated to maintain the value of the rupee ? The one thing essential to the maintenance of the value of the rupee was a limitation on its issue. The Committee talked in a very learned manner about the shilling as being maintained in value in consequence of a limitation in its issue. But did it understand how the shilling was maintained limited in quantity ? If it is true that it is not the limit on legal tender, but the limit on the total volume, that maintains the value of the shilling, why is not the shilling issued in unlimited quantities ? The manufacture of the shilling is profitable in the same way as is the manufacture of the rupee. Why does not the British Government coin it in unlimited quantities ? Only because shillings cannot be paid out in unlimited quantities ? If the Government could pay its Chancellors of Exchequer, Cabinet Ministers, and the hosts of officials and clerks, and if they in turn could pay their grocers, milkmen, brewers, and butchers in shillings, there could be nothing to prevent

the overissue of shillings. But it is because nobody can pay out shillings in unlimited quantities that nobody will have them in unlimited quantities. It is the absence of a wholesale market, so to say, due to a limit on legal tender, that stops the Government from indulging in the over-issue of shillings. The Committee was therefore wrong in arguing that the limit on legal tender had nothing to do with the maintenance of the value of the shilling. On the other hand, if limitation of issue is the prime condition which maintains the value of a token coin, one means of making such a limit effective is to put a limit on its legal tender.

With regard to its views on convertibility, its reasoning was equally confused. To say what was sufficient for France and America should be sufficient for India, was like the blind leading the blind. It was entirely erroneous to argue that it was not convertibility but their gold

"which acting through the foreign exchanges, maintains the whole mass of their currency at its nominal value for internal purposes."

Quite the contrary. France and America did not need convertibility to protect their currency because the silver franc and the silver dollar were absolutely limited in quantity. Indeed, far from being protected by the influx of gold, the limitation of issue not only maintained their value, but permitted the retention of whatever gold there was in those countries. Now, the Committee, instead of venturing into long-winded and pointless disquisitions, should have insisted that there was no necessity either to prescribe a limit of tender or convertibility with regard to the rupee, so long as there were other ways of restricting its over-issue. Limitation of legal tender or convertibility can be said to be essential only because they are the means of bringing about a limitation of issue, and if the requisite limitation of issue was provided for in other ways, the purpose for which convertibility or limitation of legal tender were asked for was accomplished. Now, was not the closing of the Mints a sufficient limitation on the volume of rupees? Indeed, if the closing of the Mints was not an effective limitation on the issue of rupees, what else could have been? Was not the closing of the Mints the same thing as regulating the currency on the principle of a fixed-issue system so well known in the matter of regulating paper currencies? That it was, could hardly be denied. That being so, the only question was whether the volume of rupees already in circulation was distinctly less than the minimum amount of legal-tender money ever necessary for the internal circulation of the country. The Government of India had foreseen the volume of rupees in circulation becoming in excess of such a minimum and had accordingly provided

against it. In their despatch of March 3, 1898, outlining their plans, the Government observed:—

"9. We know now that one of the main reasons of this failure [to maintain the exchange value of the rupee] is that our rupee circulation had before the closing of the Mints been increased to such an extent that it fully, and more than fully, supplied all the demands of trade, and allowed no room for any further addition in the form of gold..... The necessary condition of a fixed rate of exchange between two countries is that, when the currency of one of them becomes redundant as compared with that of the other, the redundancy may be relieved by the withdrawal, for a time, of the excess coin, and we wish, therefore, to reach the condition in which our circulating medium... is not composed wholly of silver coin which has no equal value outside the country, but contains also a margin of gold which is capable of being used elsewhere as coin, and will therefore in natural course flow to where it is most wanted. Our total rupee currency is estimated to be at present somewhere about 120 crores, to which we have to add 10 crores of fiduciary circulation of currency notes.

"10. It is impossible with any exactness to say, and it can only be ascertained by actual experience, by how much this rupee circulation has to be decreased in order to remove its redundancy.But some considerations point to the amount being within quite manageable limits. For example, there are twenty-four crores, more or less, of currency notes in circulation, including the amounts held in our Treasuries. If we could imagine that amount of circulation at present existing in the form of currency notes suddenly converted into £16,000,000 in gold, it seems impossible that Indian trade should be able to get on without having part at least of that amount held in actual circulation, in other words, it would not be possible for that amount of gold coin to be remitted out of the country without the value of the rupee being forced up to a point which would arrest the stream of export. If this is the case, twenty-four crores of rupees is the outside limit of the amount it might be necessary to convert into gold coin in order to introduce a stable exchange of 16d., accompanied by an actual (active or inactive) circulation of gold at that comparative value: and it is more than probable that the amount required may really fall far short of this.

"11. The mere reduction of circulation might be carried out in the same way in which it was effected in 1893, namely, by abstaining

from withdrawing council bills, until we have an accumulation of, say, twenty crores in excess of our, ordinary balances. But this procedure would be both costly and, as we believe, ineffective; in the first place the permanent locking up of twenty crores would cost us the interest on that amount, or on the amount of gold borrowed in England during the suspension of drawings, and in the second place the existence of this accumulation of silver coin would be a perpetual menace to the exchange market, and would entirely prevent any confidence in the future of the rupee. We must not only withdraw the amount from circulation, but we must show by the method we adopt that our intention is that it should cease to exist in the form of coin, and that its place, as coin, is to be taken by gold. Our proposal is therefore to melt down existing rupees, having first provided a reserve of gold [by borrowing] both for the practical purpose of taking the place of the silver and in order to establish confidence in the issue of our measures."

At the time the Committee reported the volume of rupees in circulation was not redundant, as was proved by the fact that exchange was rising and gold was flowing in. That the closing of the Mints had therefore brought about an effective limit is beyond dispute, and was even admitted by the Committee. But supposing that the closing of the Mints did not constitute an effective limitation on the volume of rupees in circulation, what was the remedy ? Was the plan of a gold reserve to assure convertibility for foreign remittances calculated to promote that object if the gold reserve was to be got by coining more rupees ? If the limitation of rupees was going to maintain their value, as it did the value of the shilling, was the permission to add to the volume of rupees which the Committee feared was overabundant if not redundant, for the sake of a gold reserve, designed to limit their volume ?

It is difficult to read the report of the Fowler Committee without exasperation. The permission to coin rupees was mischievous in every way. It was destructive of a true gold standard ; it was not wanted as a relief against monetary stringency, and was calculated to lower the value of the rupee. If it was anxious for a gold standard and currency, as it undoubtedly was, it should have absolutely stopped the coinage of rupees and suppressed the notification holding the government ready to give rupees for gold. In failing to do that it not only deprived the country of a sound system, but actually, albeit unwittingly, helped to place the entire Indian currency, including paper currency, on the basis of an inconvertible rupee. Few people seem to be alive to the

precise significance of that pernicious proviso introduced by the Herschell Committee, and remorselessly upheld by the Fowler Committee, that the government shall always be ready to give rupees for gold, but there can be no doubt that in the absence of a counter-proviso, requiring Government to give gold for rupees, the proviso is simply a cover for an authority to the Indian Government to issue inconvertible rupee currency of unlimited legal tender in the same way as the bank restriction was for an authority to the bank of England to issue inconvertible notes in unlimited quantities. The first step in the right direction would be to scrap that Report and make a speedy return to the safe and sound proposals of the Government of India as outlined in the despatch referred to above. The primary condition is to stop the coinage of rupees and not merely close the Mints to the public. Whether it would be necessary to melt a portion of the rupees depends upon what gold value it is desired the rupee should have. Once the total contraction of the rupee is settled upon and all further coinage is stopped, India will be in a position to have an effective gold standard based on a free inflow and outflow of gold. There will be no necessity to reduce the rupee in legal tender and provide for its convertibility. Its value would be maintained intact by sheer force of its quantity being limited, provided the quantity in circulation has been reduced so far as to be always below the minimum demand.

Supporters of the existing system of rupee currency have ever since its inauguration held out that the currency is economical and secure. Its claim for security, both in terms of gold and commodities, has been tested, and the grounds of it have been analysed in the course of this and previous chapters, wherein is demonstrated how very much wanting it is in the essentials that go to make up a secure currency. We must now endeavour to assess whether it is economical, for if it were really so, then that might be a point of some value against its opponents. We must therefore scrutinise the economy effected by the rupee currency. Kemmerer says,

" A convertible money finds its *raison d'etre* largely in the fact that it economises the precious metals, and makes possible a saving to the community. If paper money or token money are substituted for primary money, their substitution reduces the demand for the precious metals by the difference between the amount of metal used in the token money introduced plus that contained in the primary money required for the redemption fund. This economy of the precious metals results in an increased supply being thrown upon the market " [which supply

goes abroad and into the arts and increases the non-monetary wealth of the country by an equivalent amount: the gold obtained for the metal economised represents a net gain to the community]. The same kind of gain, says Kemmerer, attaches to the use of inconvertible money, and even on a larger scale, because there is no necessity to use primary money even for a redemption fund, as there is when the money is convertible. Such views as these have led Prof. Keynes to opine that the Indian currency system is a marvel of economy, and that other more advanced countries might usefully follow the lead. We will not draw from this the uncharitable conclusion that either Prof. Kemmerer or Prof. Keynes would recommend that because an inconvertible paper currency is the most economical currency a country should adopt it without remorse. What we are concerned with is to find out whether the rupee currency is really economical. When the process by which the rupee comes into being is carefully analysed it becomes impossible to take seriously the plea that the Indian currency is economical. First of all, gold is tendered to the Secretary of State in London for his council bills, or gold is tendered to the Government of India in India in payment of taxes or otherwise. Out of this gold the Secretary of State buys silver and coins rupees. As the price of silver is below the ratio, there arises a difference between the cost price of the rupee and its selling price in gold. To the extent of this difference there is, of course, a gain. But this gain or profit on coinage, as it is called, is no benefit to society. It is a hoard, and to that extent represents a useless abstraction of wealth. If the profit is not to be used for any current purposes of society it is as well not to coin rupees. It is therefore obvious that so long as the profits are merely held apart from the revenue resources of India there is no economy in the rupee currency worth naming. From another standpoint the currency of India is a wasteful asset to society. Metallic currency is primarily a capital good representing a form of social investment. Consequently it is necessary to see that the capital value of the currency is maintained. It is a happy circumstance to note that the Government of India is not dead to this aspect of the question with regard to its paper-currency reserve, and has very recently instituted a depreciation fund for the preservation of its capital value. Now, the considerations that apply to the paper currency should apply also to the rupee currency. Has the rupee currency maintained its capital value? The gold part of it, called the gold-standard reserve, is invested in interest-bearing securities. Interest is no doubt an additional source of gain, but have the securities maintained their capital value? Far

from it. Turn to the rupee half of the currency. Has the bullion in the rupee maintained its capital value ? There have been endless charts and diagrams drawn by playful economists in which the black line, showing the nominal value of the rupee, has remained up while the red line, showing the bullion value of the rupee, has gone down with the falling gold value of silver. But what does that mean ? Simply that the rupee is a wasting asset and is not worth at a later date what it cost to society when it was manufactured. Surely there was more economy in the project of the mad Chinaman who burnt his house to roast his pig than there is in the Indian rupee currency. The Chinaman's house must have been very old and uninhabitable. The same cannot, however, be said of this converting of gold money into silver money, because we know that silver is an inferior kind of investment to gold. Thus viewed, the currency is not in the least economical. It appears to be so because people look only to the rupee. But, adding the cost of the rupee currency to that of the gold-standard reserve, can it be said that India would have required more gold if she had a gold currency in place of a rupee currency ? Bearing in mind that with a fixed limit on the issue of rupees there can be no reason for a gold reserve, the only result of a stoppage of rupee coinage would be that gold, instead of being, as now, part reserved as a sinking fund and part transmuted into a rupee currency, would enter into circulation without being subjected to this baneful and wasteful process.

No more gold would be required in the one case than in the other. We can therefore conclude without fear of challenge that with a complete stoppage of rupee coinage Indian currency would be truly economical, prices would be more stable, and exchange secure, in the only way in which it can really be said to be secure, and the rupee, although inconvertible, will cease to be a problem, which it has been ever since 1873.

But will that be all the advantage to the country ? By no means. In drawing a moral from his comparison of the paper pound of 1797 with the paper pound of 1914, Prof. Cannan points out that—

"there can in these days be no doubt that the experiment of entrusting what no community should entrust to any institution, the power of creating money without limit, to the Bank of England, compares very favourably with the modern plan of entrusting it to the Government itself or to a State bank completely under the control of the Government. In the comparatively short war of 1914-18 currencies ' not convertible at will into a coin which is exportable '

were issued by Governments and Government banks in amounts compared with which the 100 per cent. increase in thirteen years, which made the Bullion Committee complain so vigorously in 1810, look absolutely trifling."

There was a time when it could have been said that this indictment did not apply to the Government of India. Few Governments could be said to have been so very anxious to wash their hands of the responsibilities involved in the management of a currency as the Government of India once was. In 1861, when the Government first undertook the issue of paper money in India, the anxiety it displayed was laudable. An impecunious Government, made prostrate by the heavy burdens of the Mutiny, should have welcomed the project of a paper currency as a source of profit. But so great was its sense of responsibility that the Government refused to be content with convertibility as a check on over-issue. One of the principal reasons why the desperate paper-currency scheme, which that straitened financier Mr. Wilson had devised in 1860 to find ways and means for improving the finances of India, was rejected was so well stated by his successor, Mr. Laing, that in these days of frenzied finance his remarks may as well be reproduced in full. He said —

"There was another important reason why he (Mr. Laing) thought that Sir Charles Wood's principle was the soundest. All parties were agreed that a paper currency ought to be identical with the metallic currency which it displaced. But the system of issuing against two-thirds of securities and one-third of specie, as was proposed by Mr. Wilson, would not always ensure this identity, and there was considerable risk that in times of buoyancy and speculation the circulation would be unduly extended. He thought that that was a point of considerable importance, because if we looked at what had taken place in India during the last three years, we should find a great increase in the wages of labour and the prices of commodities, which should warn us as to what the consequences might be if we were to accelerate the process already going on so rapidly by any artificial inflation of the currency. If you unnaturally stimulated the rise of prices by an over-issue of paper circulation you ran considerable risk of changing the healthy action of commerce into a feverish excitement which was sure to bring about a reaction. If we continued to go on as we had done for the last two or three years, the result would be that many articles of Indian produce might be driven out of the market by the competition of other countries, and he therefore

thought that the Government ought to be exceedingly cautious how it took any step that might unduly accelerate the tendency to a general advance, as might be the case under the system of paper currency which to any considerable extent represented securities and not bullion. Such an advance might even reach a point seriously embarrassing to the Government if the general rise in the rate of wages and cost of living made the present scale of salaries and the pay of troops no longer adequate. For these reasons he thought it by far the wisest course to adhere to the principle of paper currency adopted in England as laid down in Sir Charles Wood's despatch." Not only was the Government anxious to put a limit on the issue over and above making it convertible, but it did not want to be vested with the legal authority to issue notes. In a despatch dated April 27, 1859,* to the Secretary of State, the Government of the day observed :—

" We believe that the convertibility of the notes on demand would not be a sufficient guarantee against over-issue. When once the paper currency is established in public confidence, the temptation to take dangerous advantage of this confidence will be very great in a time of difficulty, if the power of doing so is left in the hands of the Government of India alone. Restriction by law, either to a certain amount of issue absolutely, or to any amount relative to the balances in India, will, in our opinion, be necessary. We think that such a law ought to be passed by Parliament, and not by the Legislative Council of India."

Equally sane was the view of the Government in 1876 with regard to the rupee currency. The Bengal Chamber of Commerce, it will be recalled, had urged upon the Government of India to close the Mints to the free coinage of silver, without opening them to the free coinage of gold—a project which practically meant that the Government should undertake the management of the rupee currency. The reply of the Government of India was a sharp rebuke. It declared :—

"8.the Chamber invite the Government to take a measure calculated to enhance indefinitely the value of the rupee by suspending the long-established legal right of all comers to have silver bullion manufactured upon uniform conditions under State supervision into legal-tender coin, and temporarily substituting a system of coinage at the discretion of the State..... .

" 11. It is essential to a sound system of currency that it be

automatic. No man or body of men can ascertain whether at any particular moment the interests of the community as a whole require an increase or diminution of the currency; still less, how much increase or how much decrease is, at any moment, exactly needed. No Government which aspires to keep its currency in a sound condition would be justified in attempting that impossible task, or in leaving the community, even for a short interval, without a fixed metallic standard of value. Under an 'open coinage system' these things regulate themselves without official interference." Now, compare with this the later pronouncements of the government with regard to the principles governing the paper and rupee currency respectively. During the war, when the Government of India resorted to the enlargement of paper issues, Honourable Members of the Supreme Legislative Council pointed out the effects it would produce on prices in India. But the late Hon. Sir Wm. Meyer, who as a Finance Minister piloted the Indian finances during the last war, in the course of a speech on the Indian Paper Currency (Amendment) Bill, dated September 5, 1917, replied:—

"The note circulation was sixty crores before the war and is now about a hundred crores. But the Hon. Mr. Sarma shivered at the idea of inflation. I may remind him that one of the accepted (!) doctrines of economists is that artificial inflation of paper currency only exists when the note circulation is not fully covered. Now we have covered every rupee of our note circulation. in securities....." [How could there be an inflation ?]

The change in the Government's view with regard to the rupee currency is equally noteworthy. In 1908, when the exchange value of the rupee fell below par, the Government was reminded that it was the result of the excessive coinage of rupees. But although in 1876 the Government did not think it was possible for it to so increase and decrease the currency to suit the needs of commerce, yet in 1908 the Government advanced the opposite view. The Finance Minister, the Hon. Mr. Baker, in his reply, went on to argue:—

"In the first place the whole of the new coinage that we have undertaken during this period has been undertaken solely to meet the demands of trade. Not one single rupee has been added to the circulation except to enable us to meet these demands....."

Now, if it is dangerous to entrust a Government with the power to manage currency, how very dangerous is it to entrust it to the Government of India, which professes to carry out its trust on the basis

of doctrines such as these! No one is so ill-instructed in these days as to suppose that these are sound maxims. If security is enough, what need is there for convertibility? If currency is issued only in response to trade demand, what fear is there of over-issue? A Government acting on such a principle may well go on indefinitely increasing the currency without remorse. History abounds with instances of ruin caused by the management of currencies on such naive principles as these. Happily for the country, the paper currency profoundly altered in its basis—one might almost say, tampered with—in 1920 by the Government is yet far away from currencies regulated on the theory enunciated by the Finance Minister. It is the rupee currency which has been, ever since the Mint closure, the chief source of danger to the welfare of the Indian people, particularly because of the principle governing its issue. Because that principle has the support, in itself a surprising thing, of such eminent authorities as Prof. Keynes, Mr. Shirras, and the Chamberlain Commission, it cannot alter the case for depriving the Government of this power of managing the rupee currency, for the principle is essentially unsound. The reason why the fallacy in the reasoning, that there could be no excess of rupees because of their being issued in response to trade demand, does not appear on the surface is due to the peculiar nature of money. Money is said to be wanted only because money has a purchasing power. That is no doubt true, but that does not quite explain why people so incessantly want money, even when they know that the value of money is so unstable. Indeed, if purchasing power was the only consideration we should not find such a desire for the current means of purchase. That desire can only be accounted for by the fact that money has a differential advantage over other goods, in that it has in the highest degree what Monger called the quality of saleability. That one can more often buy at a bargain than sell at a bargain is simply another way of stating that every one desires to hold his resources in the most saleable form of money. In this sense it is absolutely true that no more money can be issued than there is demand for. But from that it does not follow that there can be no over-issue of money purely for the currency needs at any given time. All money is acquired in response to trade or services, but all money is not retained in currency. Indeed, all commodities are exchanged for money, because money is supposed to bear the option of being used for non-monetary purposes. In the case of the rupee the option-of-use quality is non-existent. Consequently, although issued in response to trade demand, it

remains in currency whether it is wanted or not, and thus tends to bring about its depreciation. That such a depreciation is possible cannot be denied even by those who maintain that rupees are issued only in response to trade demand, otherwise why should they be so very anxious for an increase of the gold reserves of the country. But the danger to the rupee currency does not merely arise from the possibility of indiscretion on the part of the Government. Besides the Government there have been statesmen in India so interested in the welfare of their fellow-subjects that they have rebuked the Government on several occasions for not making the profits on rupee coinage available for the advancement of the moral and material progress of the country. and in 1907 the profits on rupees were actually employed in the extension of railways. It must fill every one with horror and despair to contemplate the consequences sure to emanate from the manipulation of currency for such ends. Is it not time this source of danger and temptation be removed by depriving the Government of this power to manage the rupee currency ? But what is the means of bringing this about ? If it is desirable to do away with the management then convertibility is an insufficient measure; for with convertibility the rupee will still remain a managed rupee. Only the complete stoppage of rupee coinage will remove the governmental interference in the management of Indian currency; and it is this that we must therefore ask for. Queer as it may seem, SAFETY LIES IN AN INCONVERTIBLE *Rupee with a fixed limit of Issue*

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